

UNITED STATES CIVIL SERVICE COMMISSION  
 BUREAU OF RETIREMENT AND INSURANCE  
 WASHINGTON 25, D.C.

IN REPLY PLEASE REFER TO

RS:RWO:pal

YOUR REFERENCE

January 3, 1964 STAT

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President  
 Government Employees Health Association  
 P. O. Box 463  
 Washington 4, D. C.

Dear [redacted]

The books and records of the Mutual of Omaha Insurance Company at Omaha, Nebraska, and the General Agent at Washington, D. C. applicable to the STAT Government Employees Health Association operations under the health benefit program were examined in accordance with section 11(b) of the Federal Employees Health Benefits Act of 1959 and paragraph 9 of Contract CS 1065. Copies of the report covering the results of the examination of the second contract term Annual Accounting Statement are enclosed.

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As a result of the examination covering the first contract term certain adjustments were recommended which were properly incorporated into the Annual Accounting Statement for the second contract period. As noted in the report, certain adjustments for the second contract term are to be included in the Annual Accounting Statement for the third contract term.

The officers and employees of "Mutual" and the Agent were again most courteous to and cooperative with the members of my staff during the examination.

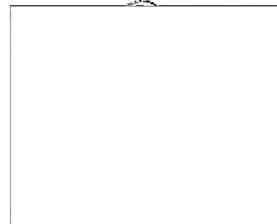
Sincerely yours,

*Andrew E. Ruddock*

Andrew E. Ruddock  
 Director

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Enclosures



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REPORT ON EXAMINATION

OF

GOVERNMENT EMPLOYEES HEALTH ASSOCIATION

CONTRACT CS 1065

FOR THE PERIOD FROM NOVEMBER 1, 1961 THROUGH OCTOBER 31, 1962

Systems and Audits Office  
Bureau of Retirement and Insurance  
U. S. Civil Service Commission

REPORT ON EXAMINATION

OF

GOVERNMENT EMPLOYEES HEALTH ASSOCIATION

CONTRACT CS 1065

FOR THE PERIOD FROM NOVEMBER 1, 1961 THROUGH OCTOBER 31, 1962

The Government Employees Health Association, an employee organization with headquarters in Washington, D.C., contracted with the Commission in Contract CS 1065 under section 4(3) of the Federal Employees Health Benefits Act of 1959 to offer members of the Association an indemnity-type health plan for the period July 1, 1960 to October 31, 1962. Representatives of the U.S. Civil Service Commission examined the Plan's accounting statement together with its related exhibits and records as of October 31, 1962 for the second contract period then ended.

General Comments

The Association administers the contract which is underwritten by the Mutual of Omaha Insurance Company at Omaha, Nebraska. The Underwriter's Policy provides that all financial and statistical reports shall be furnished as requested by the Commission. Subscriptions were received by the Association and forwarded to the Underwriter's Home Office at Omaha, Nebraska via the Underwriter's Agent at Washington, D.C.

For the contract period the Plan earned subscription charge income totalling \$1,680,684. Of this amount the Plan reported \$1,398,426 as charges for health services and \$137,991 for administrative expenses,

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taxes, commissions and risk charges. The Plan had a carry-forward loss of \$98,000 from the first contract period. At the end of the second contract period the Plan held \$46,266 in its Special Reserve to be used for charges against this contract in subsequent periods. In addition, the Contingency Reserve being held by the Commission for the Plan, including interest credits amounted to \$111,689.

The Underwriter's books of account were maintained in conformity with the generally accepted principles of accounting; however, certain adjustments were necessary as a result of the examination.

Accounting Statement

The Plan's accounting statement and supporting schedules of administrative expense appear in the report under EXHIBITS A-C. The adjustments that were made during the examination appear in the report under APPENDIX B.

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Health Benefits

Payments for health benefits during the second contract period amounted to [redacted] of which 61% represented hospitalization charges and 39% represented physicians and related charges. Benefits reimbursements made to the Association by the Underwriter's Agent were supported by listings certified by the Association's representative. Each of these listings contained the number and value of claims paid, supported by the Association's working papers, which showed the computation of the amount of each claim paid.

Subsequent to reimbursement all of the working papers were transmitted by the Underwriter's Agent to its Home Office at Omaha, Nebraska where they were post-audited and filed.

Survey of Accounting System

A survey was made of the Underwriter's system of accounting and its revised method of allocation and distribution of costs to the Plan. The system and methods were found to be in conformity with the generally accepted principles of cost accounting.

Administrative Charges

The contract provides that the administrative charges allocated to the Plan shall be the actual necessary incurred expense determined on an equitable and reasonable basis with proper accounting support; and, that such charges will be subject to adjustment as agreed upon by the Carrier and the U.S. Civil Service Commission on the basis of the Commission's examinations.

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Underwriter's Administrative Charge - The contract further provides that the Underwriter's administrative charge should not exceed 2.0%

[redacted] of the subscription charges during the contract period.

The Plan's schedule in support of its Underwriter's administrative expense showed the amount incurred as [redacted] (1.8% of subscription charges) which was shown as having been increased by [redacted]

as the adjustment to the prior period's charge. This resulted in the total charge of [redacted] (1.99% of subscription charges) to

the second contract period which appeared on the Plan's accounting statement as part of the Underwriter's Administrative Expense. The General Agent's charges for administrative expense were overstated

by [redacted] and the Agent agreed that this amount would be reported as a deduction to the charges for the third contract period.

Special Reserve

The Plan's accounting statement showed [redacted] as the amount being held in its Special Reserve as of the end of the second contract period. In recognition of the adjustments to the Underwriter's books of accounts as a result of the examination, the Underwriter should also include the amount of [redacted] as part of the Plan's Special Reserve as of November 1, 1962 for use in computing the amount of income investment earned by the Plan during the third contract period.

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Scope of Examination

Subscription charges (received and accrued) shown by the Plan's accounting statement were verified to the records of the U. S. Civil Service Commission and those of the Underwriter.

Postings of paid claims to the Underwriter's records were verified to cleared drafts on a test-check basis; and, the total amount paid, as shown by the Plan's accounting statement, was verified to the Underwriter's books of account.

The amount of accrued benefits for the period was verified to the Underwriter's records and an evaluation of the accrual as of October 31, 1962 was made based upon the claims paid during the four-month period immediately following the second contract period.

A survey of the Underwriter's accounting system and revised methods of allocation and distribution of costs was made.

All administrative expenses were verified to the Underwriter's books of account and a representative number of accounts was verified to the source documents.

Taxes paid were verified to the Underwriter's records and books of account.

The computation of the commissions, override and risk charge was verified.

The Plan's investment income together with its Special Reserve was verified to the Underwriter's records as of the end of the contract's second period.

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UNITED STATES CIVIL SERVICE COMMISSION  
BUREAU OF RETIREMENT AND INSURANCE  
WASHINGTON, D.C. 20415

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[Redacted]  
President  
Government Employees Health Assn., Inc.  
P. O. Box 463  
Washington 4, D. C.

STAT

Dear [Redacted]

As you will soon be preparing the Annual Accounting Statement on the operations of your plan under the Federal Employees Health Benefits Program, we believe a review of some of the requirements for the preparation of the statement may be appropriate. The statement shall cover operations for the period from November 1, 1962 through October 31, 1963. It should be received in the Commission no later than February 1, 1964. However, we would appreciate receiving it at the earliest date possible. We hope you will follow closely the "Explanatory Notes Applicable to Interim and Annual Accounting Statements" previously furnished you. The submission of all necessary supporting schedules and work papers will also facilitate our review.

On the attachment we are advising you of the amount of subscription charges paid and accrued during the contract period November 1, 1962 through October 31, 1963. Please verify our amounts to your records before compiling your Annual Accounting Statement and if any discrepancies are noted, we would appreciate your bringing them to our attention before releasing your statement.

Please remember that the accrued subscription charges as of October 31, 1963 may be shown on the four SF 1166a's immediately following that date i.e., November 8, November 25, December 10 and December 24th. Subscription charges for pay periods ending November 3, 8 and 9, will be included in the "10/31/63 and Prior" classification on these vouchers.

The Commission is required to report to Congress each year on the results of operations under the Health Benefits Law. It is important therefore that the Health Benefits Paid reported in the Statement be in agreement with or readily reconcilable to the consolidation of your twelve Monthly Summary of Arising Claims and Claims Payments reports sent to Mr. Zisman, if your plan submits such reports.

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The reporting of Health Benefits Accrued has been simplified this year, to a one-line item. However, the amounts reported as the incurred but unpaid benefits as of October 31, 1963 must still be supported by attached schedules showing in detail the method by which the accrual is derived. Summary data on the liquidation of accruals established at prior contract year-ends should be retained in order to be available for our on-site review.

We again remind you that the actual incurred administrative expenses must not exceed the amount of percentage limitations of total subscription charges provided in your contract for this item. In support of these amounts we would appreciate schedules or reproduction of work papers which summarize the amount of expense incurred by type of service. This schedule will be subject to audit and must be supported by books and records. Your attention is also drawn to that portion of your contract which provides that the administrative charges shall be only the "actual, necessary incurred expenses determined on an equitable and reasonable basis with proper justification and accounting support." Certain items of expense such as advertising and promotion for new business, entertainment, donations and contributions are not allowable costs under this contract.

One of the major changes from previous reporting requirements is the necessity to show all line items by high and low option (where the plan has two options). This is particularly true in the section for Cumulative Gain or Loss of the Annual Accounting Statement; it being the intent that the last line of the statement shall reflect the results, by option, of the plan's operation from its inception to October 31, 1963.

For the fourth contract period there will be no change in the reporting dates, nor the dates the reports are due in the Commission.

For your information, the Contingency Reserve (including interest income) held in the Federal Employees Health Benefits Fund for your plan as of October 31, 1963 is shown on the attachment. It is suggested that any reports you prepare for internal informational purposes within your organization include this item as a footnote. It requires no accounting treatment.

You will notice the attachment also shows the number of enrollees from whom no health benefits deductions were made by virtue of being in a non-pay status.

We wish to express our appreciation for the cooperation accorded us by you and your staff throughout the past contract period.

Sincerely yours,

*Harold E. Hunsaker*

Harold E. Hunsaker  
Chief, Systems & Audits Office

Attachment